

The silent squeeze: the impact of inflation on Welsh benefits

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September 2024



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Acknowledgements

This document forms part of a broader project of work developed in collaboration between the Bevan Foundation and the Joseph Rowntree Foundation. The Bevan Foundation would like to thank the Joseph Rowntree Foundation for their ongoing support.



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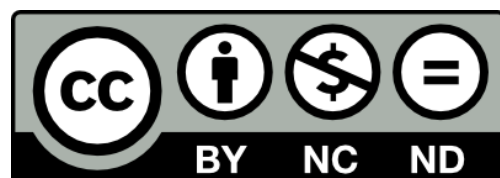
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1. Introduction

The Welsh Government is responsible for a number of means-tested grants and allowances which complement the UK social security system. The grants and allowances include the Council Tax Reduction Scheme, Free School Meals, School Essentials Grant and Education Maintenance Allowance. The Bevan Foundation has termed these grants and allowances collectively as 'Welsh benefits'.

Welsh benefits provide a lifeline to low-income families and are one of the main tools at the Welsh Government's disposal to reduce poverty and ensure households have enough resources for everyday essentials. Following Bevan Foundation's calls to streamline the grants and allowances, the Welsh Government is creating a Welsh Benefits System that should, in time, make it much easier for people to access their rights and entitlements.¹ These include creating single points of access and enabling claims for Universal Credit to trigger claims for Council Tax Reduction.²

Welcome though the administrative changes are, a Welsh Benefits System will only achieve its full impact if the value and eligibility criteria of the different schemes are updated to keep pace with inflation. Unfortunately, difficult fiscal settlements over several years have resulted in the cash value and eligibility criteria of most grants and allowances being frozen. As a result, there have been significant real terms decreases in almost all grants and allowances, leading to payments that are worth less and less, and fewer and fewer people getting them.

This briefing calls for devolved grants and allowances, including their eligibility criteria, to be put on the same footing as UK social security benefits, by being updated annually in line with CPI inflation. Indeed, the Welsh Government has previously called on the UK government to update UK benefits by CPI and has been highly critical when it has not done so. The briefing also highlights the many different and ad hoc criteria, including financial thresholds, used to determine eligibility. In the medium term, we urge the Welsh Government to put the eligibility criteria and cash value of devolved grants and allowances on a consistent and logical footing.

The briefing sets out three key reasons why uplifting both the value and eligibility criteria of Welsh benefits should be a priority:

- to reduce poverty and inequality
- to help to make work pay; and
- to achieve wider policy goals.

We recognise that the 2025/26 Welsh budget is likely to be challenging, with tough decisions needing to be made. However, we urge the Welsh government to fulfil its commitment to reduce poverty and inequality and improve well-being by ensuring that its investment in a Welsh Benefits System reaches more people with the support they need.

2. Reduce poverty and inequality

Life has been difficult for many people across Wales over recent years as the impact of the pandemic and the cost-of-living crisis has seen many stretched to breaking point. The Bevan Foundation's most recent Snapshot of Poverty report, published in March 2024

raised concerns that higher levels of poverty and financial hardship have become the “new normal” in many Welsh communities, with one in eight people reporting that they sometimes, often or always struggled to afford essential items.³

Welsh benefits can be a considerable help to households struggling financially. The Bevan Foundation and Policy in Practice estimated that for an eligible Welsh household their additional support could be worth up to approximately £4,000 per year.⁴ The various grants and allowances are a vital complement to the UK social security system, providing much-needed additional cash. The value of Universal Credit has been so eroded over the last decade that today five in six households who receive it struggle to afford food, heating or toiletries.⁵ Already-low benefit rates can be reduced further, by deductions, caps and sanctions. The Joseph Rowntree Foundation found that almost half of families in the UK had their Universal Credit payments reduced by deductions and caps.⁶ Receipt of one of the devolved grants and allowances can help to ease these pressures and are greatly valued by people in Wales.⁷

Welsh benefits are especially important for people whose immigration status includes No Recourse to Public Funds (NRPF). Denied access by UK government immigration rules to most benefits including Universal Credit, devolved grants and allowances (with the exception of Council Tax Reduction) can help low-income families which include someone with NRPF to avoid destitution. Unfortunately, very few local authorities in Wales use their discretion to allow children from low-income families with NRPF to access Free School Meals and School Essentials Grant.⁸

While a Welsh Benefits System will help to ensure that devolved grants and allowances reach people who need it, the impact will be all the greater if the value of payments and eligibility criteria are regularly updated. Without uprating, the number of people eligible for the payments and the difference that the payments make will gradually decrease. The consequences of not uprating can demonstrated by looking at two Welsh benefits.

The School’s Essentials Grant is an annual payment to low-income parents of school age children to help pay for school uniform, equipment, sports kit, and kit for extra-curricular activities.⁹ Parents of eligible children receive £125 each year, with a higher payment of £200 made to parents of children in Year 7 to reflect the extra costs of starting secondary school.

The generosity of the School’s Essentials Grant had increased over time. Having originally been restricted to children in Reception, Year 3, Year 7 and Year 10, the Welsh Government gradually extended eligibility so that by 2022 children in each school year from Reception to Year 11 were eligible. The value of the payment has been frozen since then, resulting in a real terms loss of value. Had the School’s Essentials Grant increased in line with inflation since 2022 it would currently be worth £137.46 for children in years other than Year 7, with children in that year being entitled to £219.93.¹⁰ A loss of just £12 or £20 is important for low-income families, especially if they have more than one child in school.

While the squeeze on the value of the School’s Essentials Grant has been relatively modest to date, the importance of the principle of annual uprating is demonstrated by another Welsh benefit, the Welsh Government Learning Grant (Further Education).

The Welsh Government Learning Grant (Further Education) provides financial support to people over the age of 19 who are studying in Further Education colleges.¹¹ The amount

of support a student can receive depends on their household income and the type of course they are pursuing. The most generous support is made available to learners studying full time that are living in a household with an income of less than £6,120. Such students are entitled to a grant of £1,500.

The value of these grants has remained unchanged since the introduction of the scheme in 2003/04.¹² This means that the real terms cash value of the support provided via the Welsh Government Learning Grant (FE) has more than halved over the last two decades. If the higher rate of support had increased in line with inflation it would now stand at £2,658.07 a year.¹³

3. Make work pay

Making work pay is a key commitment of the new UK Government, but a failure to uprate the eligibility criteria for Welsh benefits in line with inflation has created a 'benefits trap' that reduces incentives to work.

To be eligible for most Welsh benefits, individuals or households are required to have earned income, household income, or savings of less than a specified amount. The eligibility threshold for most Welsh benefits has been frozen by the Welsh Government for some time, sometimes decades, meaning that people have to be significantly worse-off to be eligible than in the past. It is low-income workers that have been most significantly affected by this squeeze.

This is demonstrated by the eligibility criteria for Free School Meals and the School Essentials Grant, which have been unchanged since 2019. To be eligible for Free School Meals in secondary school or the School Essentials Grant, a child's parent must either receive legacy benefits or Universal Credit, and have an annual net earned household income of less than £7,400.¹⁴ Had the earned household income element of the criteria increased in line with inflation, the threshold would now stand at £9,185.23 a year.¹⁵ To be eligible for a Free School Meal in secondary school or the School Essentials Grant today, a family would have to be £1,785 a year poorer than in 2019.

The impact of this real terms cut on low-income workers is clear by looking at how many hours of work at the National Living Wage exceeds the earnings threshold. In 2019, a single parent aged 25 and over could work just over 17 hours a week on average and still qualify for Free School Meals in secondary school.¹⁶ Today, the same parent can only work 12.5 hours a week before they are ineligible. It is worth noting that 12.5 hours work a week is not enough to qualify for the Welsh Government's Childcare Offer, meaning that the Free School Meals earnings cap is now so low as to lock out all "working parents" as per the Welsh Government own definition.¹⁷ Universal Credit work rules for families with a child over 11 also means that it would be even more very difficult for any working family to access Free School Meals in secondary school.

The Education Maintenance Allowance (EMA) is a weekly cash payment of £40 that is provided to learners aged 16 to 18 from low-income households during term time.¹⁸ The aim of the payment is to support young people from low-income households to continue their education, either in sixth form or a Further Education College.

In 2023 the Welsh Government made the welcome decision to uprate the cash value of EMA from £30 to £40.¹⁹ This decision followed nearly two decades where the cash value

of the EMA had remained unchanged, eroding the value of the support provided. Whilst this was a welcome decision the eligibility criteria for EMA were not increased, meaning that it has remained unchanged for a decade and a half.

To be eligible for EMA a young person must live in a household with an income of less than £20,817 if they are the only dependent young person, and an income of less than £23,077 if there is more than one young person.²⁰ Had these thresholds increased in line with inflation since then, a young person living in a household with an income of less than £31,154.50 would be eligible for EMA if they were the only young person living in a household.²¹ If there was more than one young person living in the household, they could qualify for EMA if their household income was less than £34,536.79.

In real terms, to receive EMA a young person must live in a household that is £10,338 or £11,460 poorer than at the turn of the last decade. There have been similarly significant cuts in the cash value of the eligibility criteria of the Welsh Government Learning Grant (Further Education).

Increasing the eligibility criteria regularly is therefore crucial to ensure that all people living in poverty receive the support that they need and to ensure that low-income workers in particular aren't penalised for their decision to go out and work.

4. Meet wider policy goals

Annual uprating of Welsh benefits can help the Welsh and UK governments to meet their long-term goals, such as economic growth, improving the NHS and breaking down barriers to opportunities.

The link between low income and poor educational, health and economic outcomes is well-known. By providing additional cash payments, Welsh benefits play an important part in reducing some of the worst consequences of living in poverty.

This is not just a general improvement that any increase in household income might achieve - there are direct and specific benefits from individual Welsh benefits. A vivid illustration of this was a review published by the Welsh Government in July 2024 on the Educational Maintenance Allowance (EMA).²²The review found that:

The EMA alleviates financial stress and anxiety amongst learners and their families and plays a key role in contributing to learner's wellbeing.

It further finds that the EMA allows learners to focus on their studies and finds that it has a positive impact of attendance.

However, because eligibility thresholds have not been uprated, the number of young learners receiving EMA has more than halved since 2010/11, down from 36,000 to 16,000. The impact on young learners has been devastating:

there is convincing evidence that non-EMA recipients (assumed to be from low-income households) face financial hardship, go without essential items, and are very concerned about their financial situations.

The EMA is not alone in having such transformational effects on people from low-income households.

Free School Meals is a key tool for solving child poverty in Wales. There is already a wealth of scientific evidence that highlights how children's academic attainment and their long-term health benefit from a nutritious and balanced diet.²³ Evidence suggests that the diets of those living in poverty are not as nutritious as those on higher incomes.²⁴ The provision of free school meals helps to tackle this inequality, improving children's health whilst also easing some of the financial pressures faced by parents on low income, reducing their risk of poverty.

These broader policy considerations were among the reasons why the Welsh Government committed to providing free school meals on a universal basis in primary school. The Welsh Government's failure to increase the eligibility thresholds for children in secondary school in line with inflation risks undermining the positive impact of its policy at primary school age, with more and more children that live in poverty set to miss out on the long-term health and educational benefits of having a free, nutritious meal in school.

It is clear that Welsh benefits can have a wide-ranging impact in supporting the Welsh Government to reach its policy goals. Up-rating the cash value of both eligibility criteria and the value of the support on offer in line with inflation is therefore crucial to maximise this potential.

5. Conclusion and recommendations

This briefing demonstrates the impact of freezing the eligibility criteria and cash value of Welsh benefits. The 'silent squeeze' is locking people in real hardship out of the help they need and cutting the value of payments they do receive. Not only are more families in deeper hardship, but it hinders the achievement of the Welsh Government's wider priorities such as improving wellbeing, providing effective healthcare and reducing inequalities.

In the short term, the Welsh Government must take the same course of action as it has previously urged the UK government to take – namely uprate all eligibility thresholds and payment values by inflation and commit to doing so annually in future.

In the medium term, the Welsh Government must put the eligibility of different grants and allowances on a consistent and logical footing, based on sound principles and taking into account family circumstances. The thresholds for too many schemes are ad hoc and inconsistent. For example, the Free School Meal eligibility threshold of £7,400 in earned income was set in 2019 to maintain the number of children receiving a meal at historic levels when Universal Credit was rolled out.²⁵ It takes no account of family size, housing costs or savings. EMA, which many young people who received Free School Meals might want to claim, is assessed differently – based on household income (including benefits and earnings) and with different rates for households with one or more than one young person.

Recommendations

1. The Welsh Government should commit to restoring eligibility thresholds and cash value of all Welsh benefits to their real terms value at the time they were last uprated, where possible.
2. The Welsh Government should increase the eligibility thresholds and cash values of all Welsh benefits at least in line with inflation in the 2025/26 budget and thereafter.
3. The Welsh Government should ensure that all local authorities across Wales allow eligible children from families with NRPF can receive a Free School Meal and School Essentials Grant.
4. The Welsh Government should review the eligibility thresholds and cash value of grants and allowances so they are on a consistent footing, by working with experts and people with lived experience, for implementation in 2026/27.

Annex

This Annex sets out to provide indicative values of the eligibility criteria and the cash value of each Welsh benefit had they increased in line with inflation since they were last updated. These estimates have been reached by using the Bank of England's Inflation Calculator, with all figures correct as of July 2024 estimates.²⁶

Free School Meals in secondary school

Current eligibility criteria: Legacy benefits or Universal Credit and an annual earned income of less than £7,400

Upated eligibility criteria: Legacy benefits or Universal Credit and an annual earned income of less than £9,185.23

Cash value: N/A

School Essentials Grant

Current eligibility criteria: Legacy benefits or Universal Credit and an annual earned income of less than £7,400

Upated eligibility criteria: Legacy benefits or Universal Credit and an annual earned income of less than £9,185.23

Current cash value: £125 each school year, rising to £200 for children in Year 7

Upated eligibility criteria: £137. 46 each school year, rising to £219.93

Education Maintenance Allowance

Current eligibility criteria: Household income of less than £20,817 if there is one dependent young person, or less than £23,077 if there are two or more dependent young people

Upated eligibility criteria: Household income of less than £31,154.50 if there is one dependent young person, or less than £34,536.79 if there are two or more dependent young people

Current cash value: £40 per week during the academic term

Upated eligibility criteria: £40.49 per week during the academic term

Welsh Government Learning Grant Further Education

Welsh Government Learning Grant (Further Education) – eligibility thresholds and cash values, current and adjusted for inflation

Annual Household Income (Current)	Annual Household Income (Adjusted for inflation)	Part-time (275 – 499 hours) - Current	Part-time (275 – 499 hours) – Adjusted for inflation	Full-time (500+ hours) - Current	Full-time (500+ hours) Adjusted for inflation
Up to £6,120	Up to £8,767.76	£750	£1,329.04	£1,500	£2,658.07

£6,121 - £12,235	£8,769.19 - £17,528.36	£450	£797.42	£750	£1,329.04
£12,236 - £18,370	£17,528.36- £26,317	£300	£531.61	£450	£797.42
£18,371 and above	£26,319.04	£0	£0	£0	£0

Healthy Start

Current eligibility criteria: Universal Credit and earned income of less than £4,900 per year.

Upated eligibility criteria: Universal Credit and earned income of less than £6,514.69 a year.

Current cash value: £4.25 per week from the 10th week of a pregnancy until birth, £8.50 per week between a child's birth and their first birthday, and £4.25 per week between the child's first and fourth birthdays.

Upated eligibility criteria: £5.10 per week from the 10th week of a pregnancy until birth, £10.20 per week between a child's birth and their first birthday, and £5.10 per week between the child's first and fourth birthdays.

Council Tax Reduction Scheme

Current eligibility criteria: In receipt of Job Seekers Allowance, Employment Support Allowance, Pension Credit, Income Support or Universal Credit and less than £16,000 in savings

Upated eligibility criteria: In receipt of Job Seekers Allowance, Employment Support Allowance, Pension Credit, Income Support or Universal Credit and less than £21,734 in savings

Cash value: N/A

²¹ Estimates reached using the Bank of England's Inflation Calculator

²² Welsh Government, *A review of the Education Maintenance Allowance in Wales: summary* (July 2024) available at - <https://www.gov.wales/sites/default/files/pdf-versions/2024/7/3/1721199635/review-education-maintenance-allowance-wales-summary.pdf>

²³ For example, see Michael Savage, Guardian, *Free school meals 'cut obesity and help reading skills' in England, study finds* (February 2024) available at - <https://www.theguardian.com/society/2024/feb/04/free-school-meals-cut-obesity-help-reading-skills-england-study-finds>

²⁴ For example Lynne Kennedy, the Conversation, *Poor diet is the result of poverty not lack of education* (May 2014) available at - <https://theconversation.com/poor-diet-is-the-result-of-poverty-not-lack-of-education-26246>

²⁵ Welsh Government, *Consultation document, Revised eligibility criteria for free school meals* (June 2018) available at - <https://www.gov.wales/sites/default/files/consultations/2018-06/revised-eligibility-criteria-for-free-school-meals-consultation-document-v2.pdf>

²⁶ The Bank of England's Inflation Calculator can be accessed at - <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>